

MORAVIA COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2004

**Peak & Gerdes, LLP
Certified Public Accountants
103 Benton Avenue East
Albia, Iowa 52531**

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Moravia Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2003 Election)		
Edward Robinson	President	2003
Sharon Redinbaugh	Vice-President	2003
Connie Brown	Board Member	2004
Angela Stufflebeam	Board Member	2005
Dale Brinegar	Board Member	2003
<u>Board of Education</u> (After September, 2003 Election)		
Angela Stufflebeam	President	2005
Connie Brown	Vice-President	2004
Dale Brinegar	Board Member	2004
Lori Argo	Board Member	2006
Chad Martin	Board Member	2006
<u>School Officials</u>		
Graham Quinn	Superintendent	2004
Stacy Moore	District Secretary/Treasurer/ Business Manager	2004
Rick Engel	Attorney	2004

Moravia Community School District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Moravia Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moravia Community School District, Moravia, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Moravia Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principals.

As described in Note 14 to the financial statements, during the year ended June 30, 2004, Moravia Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2004 on our consideration of Moravia Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 40 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Moravia Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

August 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis of the Moravia Community School District financial statements is provided by the district for interested members of the community. This narrative overview and analysis of district financial activities is for the fiscal year which ended June 30, 2004. Readers are encouraged to consider this information in conjunction with the District's financial statements, which follow.

The Moravia Community School District is implementing these new fiscal reporting standards to comply with new requirements set by state government. These new procedures include significant changes in content and reporting structure, which makes the information difficult to compare to fiscal information reported in prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,779,790 in fiscal 2003 to \$2,757,956 in fiscal 2004, while General Fund expenditures increased from \$2,812,042 in fiscal 2003 to \$2,860,151 in fiscal 2004. The District's General Fund balance decreased from \$709,852 in fiscal 2003 to \$602,402 in fiscal 2004, a 15% decrease.
- The decrease in General Fund revenues was attributable to a decrease in tuition and sharing arrangements with other districts and state revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund to decrease.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Moravia Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Moravia Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Moravia Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Sample GASB 34 Community School District Annual Financial Report

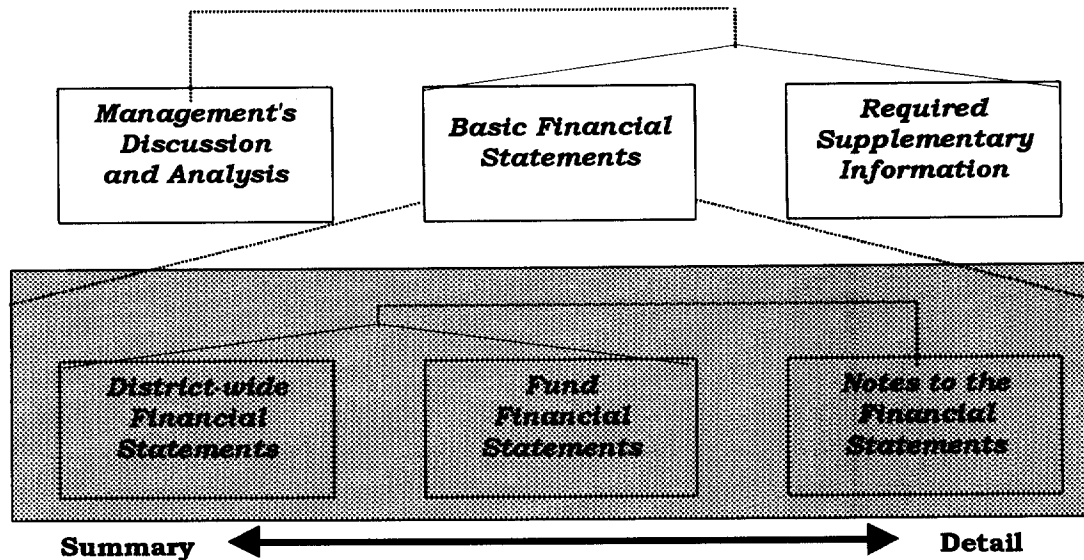


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or

decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004.

Figure A-3 Combined Statement of Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Current and other assets	\$ 1,819	\$ 19	\$ 1,838
Capital assets	1,453	16	1,469
Total assets	3,272	35	3,307
Long-term liabilities	725	-	725
Other liabilities	866	5	871
Total liabilities	1,591	5	1,596
Net assets			
Invested in capital assets			
net of related debt	728	16	744
Restricted	244	-	244
Unrestricted	709	14	723
Total net assets	\$ 1,681	\$ 30	1,711

The District's combined net assets decreased by nearly 5%, or approximately \$89,100, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$27,000, or 9% over the prior year. The decrease was primarily a result of decreased revenues in the Debt Service Fund, due in part to previous refinancing of bonds to take advantage of lower interest rates.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$107,000, or 15%. This reduction in unrestricted net assets was the result of the District using carryover fund balances to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4 Changes in Net Assets (Expressed in Thousands)			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 376	66	442
Operating grants, contributions and restricted interest	563	71	634
General revenues:			
Property tax	903	-	903
Unrestricted state grants	1,160	-	1,160
Unrestricted investment earnings	5	-	5
Other	5	-	5
Total revenues	3,012	137	3,149
Program expenses:			
Governmental activities:			
Instruction	2,046	-	2,046
Support services	887	-	887
Non-instructional programs	-	131	131
Other expenses	174	-	174
Total expenses	3,107	131	3,238
Change in net assets	\$ (95)	6	(89)

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,011,425 and expenses were \$3,107,240. In a difficult budget year, the District was able to balance the budget by deficit spending from the cash reserves.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,046	1,210
Support services	886	887
Non-instructional programs	1	(11)
Other expenses	174	83
Totals	<u>\$ 3,107</u>	<u>2,169</u>

- The cost financed by users of the District's programs was \$375,521.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$563,102.
- The net cost of governmental activities was financed with \$903,488 in property and other taxes and \$1,159,682 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$137,837 and expenses were \$131,126. The District's business type activities include the School Nutrition Fund.

During the year ended June 30, 2004, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund, which the District has obligated for replacement of obsolete kitchen equipment.

INDIVIDUAL FUND ANALYSIS

As previously noted, Moravia Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$864,332, well below last year's ending fund balances of \$998,486.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. State aid was cut, and personnel costs have increased. As a result, the District had to use carryover fund balance in order to meet the financial obligations during the year.
- The General Fund balance decreased from \$709,852 to \$602,402, due in part to the negotiated salary and benefits settlement for classified and certified staff, the prior year reduction in state aid and existing expenditure commitments of the District.

- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of (\$16,205) in fiscal 2003 to (\$3,635) in fiscal 2004. While revenues remained approximately the same, the District substantially reduced spending from the PPEL in order to reduce the prior year deficit and improve the financial condition of the fund.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$23,135 at June 30, 2003 to \$29,846 at June 30, 2004, representing an increase of approximately 29%. For fiscal 2004, the District increased meal prices, resulting in a hopeful increase in net assets. The District also revamped its school lunch program to provide students with the option of salad and/or pasta bars at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, Moravia Community School District did not amend its annual budget.

The District's revenues were \$218,094 less than budgeted revenues, a variance of 6%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practices, the certified budget was exceeded in the instruction and other expenditures functional areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2.2% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$82,312.

The original cost of the District's capital assets was \$3.0 million. Governmental funds account for \$2.9 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities	Business type Activities	Total District
	June 30, 2004	June 30, 2004	June 30, 2004
Land	\$ 1	-	1
Buildings	1,315	-	1,315
Improvements other than buildings	13	-	13
Furniture and equipment	124	16	140
Totals	<u>\$ 1,453</u>	<u>16</u>	<u>1,469</u>

Long-Term Debt

At June 30, 2004, the District had \$724,947 in general obligation and a vehicle loan. This represents a decrease of approximately 9% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-term Obligations
(Expressed in Thousands)

	Governmental Activities
	June 30, 2004
General obligation bonds	\$ 720
Vehicle loan	5
Totals	<u>\$ 725</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Although the District has experienced declining enrollment for the past three years, the District expects a slight increase in enrollment due to a new housing development in progress within the District.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety issues, one bus must be replaced during fiscal 2005 at a cost of \$40,000 and repairs on gym pylons must be made for an estimated cost of \$65,000. To pay for this, the District will use a combination of resources from the Physical Plant and Equipment Levy Fund and the Local Option Sales Tax Fund.
- Fiscal 2004 was the last year of a two-year contract with the Moravia Education Teacher Association. The District will negotiate a new agreement during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Stacy Moore, District Secretary/Treasurer and Business Manager, Moravia Community School District, 505 N. Trussell, Moravia, Iowa, 52571.

Basic Financial Statements

Moravia Community School District

Exhibit A

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
Other	\$ 571,494	15,210	586,704
Investments	162,301	-	162,301
Receivables:			
Property tax:			
Delinquent	16,047	-	16,047
Succeeding year	836,494	-	836,494
Accrued interest:			
Other	377	-	377
Due from other funds	5,000	-	5,000
Due from other governments	227,835	-	227,835
Inventories	-	3,592	3,592
Capital assets, net of accumulated depreciation	1,452,969	16,138	1,469,107
Total assets	3,272,517	34,940	3,307,457
Liabilities			
Accounts payable	288	94	382
Due to other governments	27,835	-	27,835
Due to other funds	-	5,000	5,000
Accrued interest payable	2,051	-	2,051
Deferred revenue - succeeding year property tax	836,494	-	836,494
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	75,000	-	75,000
Vehicle loan payable	4,947	-	4,947
Portion due after one year:			
General obligation bonds payable	645,000	-	645,000
Total liabilities	1,591,615	5,094	1,596,709
Net assets			
Invested in capital assets, net of related debt	728,022	16,138	744,160
Restricted for:			
Management levy	33,027	-	33,027
Physical plant and equipment levy	(3,635)	-	(3,635)
Other special revenue purposes	214,767	-	214,767
Unrestricted	708,721	13,708	722,429
Total net assets	\$ 1,680,902	29,846	1,710,748

See notes to financial statements.

Moravia Community School District

Statement of Activities

Year ended June 30, 2004

Functions / Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,315,766	222,114	273,293	-
Special instruction	299,730	21,341	185,309	-
Other instruction	430,728	120,388	14,145	-
	<u>2,046,224</u>	<u>363,843</u>	<u>472,747</u>	<u>-</u>
Support services:				
Student services	72,891	-	-	-
Instructional staff services	44,222	-	-	-
Administration services	398,037	-	-	-
Operation and maintenance of plant services	223,368	-	-	-
Transportation services	147,939	-	-	-
	<u>886,457</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs	<u>400</u>	<u>11,678</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	4,699	-	-	-
Long-term debt interest	29,630	-	997	-
AEA flowthrough	89,358	-	89,358	-
Depreciation (unallocated)*	50,472	-	-	-
	<u>174,159</u>	<u>-</u>	<u>90,355</u>	<u>-</u>
Total governmental activities	<u>3,107,240</u>	<u>375,521</u>	<u>563,102</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>131,126</u>	<u>66,360</u>	<u>71,443</u>	<u>-</u>
Total	<u>\$ 3,238,366</u>	<u>441,881</u>	<u>634,545</u>	<u>-</u>

General Revenues:

Property tax levied for:

- General purposes
- Debt service
- Capital outlay

Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(820,359)	-	(820,359)
(93,080)	-	(93,080)
(296,195)	-	(296,195)
(1,209,634)	-	(1,209,634)
(72,891)	-	(72,891)
(44,222)	-	(44,222)
(398,037)	-	(398,037)
(223,368)	-	(223,368)
(147,939)	-	(147,939)
(886,457)	-	(886,457)
11,278	-	11,278
(4,699)	-	(4,699)
(28,633)	-	(28,633)
-	-	-
(50,472)	-	(50,472)
(83,804)	-	(83,804)
(2,168,617)	-	(2,168,617)
-	6,677	6,677
(2,168,617)	6,677	(2,161,940)
\$ 808,872	-	808,872
74,198	-	74,198
20,418	-	20,418
1,159,682	-	1,159,682
4,667	34	4,701
4,965	-	4,965
2,072,802	34	2,072,836
(95,815)	6,711	(89,104)
1,776,717	23,135	1,799,852
\$ 1,680,902	29,846	1,710,748

Moravia Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2004

	General	Special Revenue Moravia Education Foundation	Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
Other	\$ 444,235	9,832	117,427	571,494
Investments	-	162,301	-	162,301
Receivables:				
Property tax:				
Delinquent	13,624	-	2,423	16,047
Succeeding year	670,166	-	166,328	836,494
Accrued interest:				
Other	359	-	18	377
Due from other funds	34,783	-	-	34,783
Due from other governments	227,835	-	-	227,835
Total assets	\$1,391,002	172,133	286,196	1,849,331
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	-	288	288
Due to other governments	27,835	-	-	27,835
Due to other funds	-	-	29,783	29,783
Deferred revenue:				
Succeeding year property tax	670,166	-	166,328	836,494
Other	90,599	-	-	90,599
Total liabilities	788,600	-	196,399	984,999
Fund balances:				
Reserved for debt service	-	-	17,771	17,771
Reserved - donor specified	-	124,312	-	124,312
Unreserved	602,402	47,821	72,026	722,249
Total fund balances	602,402	172,133	89,797	864,332
Total liabilities and fund balances	\$1,391,002	172,133	286,196	1,849,331

See notes to financial statements.

Moravia Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (page 21)	\$ 864,332
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,452,969
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	90,599
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,051)
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(724,947)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 1,680,902</u></u>

See notes to financial statements.

Moravia Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General	Special Revenue Moravia Education Foundation	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 790,042	-	124,303	914,345
Tuition	242,808	-	-	242,808
Other	21,010	17,691	122,331	161,032
Intermediate sources	37,477	-	-	37,477
State sources	1,463,061	-	-	1,463,061
Federal sources	203,558	-	-	203,558
Total revenues	2,757,956	17,691	246,634	3,022,281
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,294,600	20,477	6,989	1,322,066
Special instruction	409,795	-	1,508	411,303
Other instruction	193,060	-	126,095	319,155
	1,897,455	20,477	134,592	2,052,524
Support services:				
Student services	72,444	-	447	72,891
Instructional staff services	43,991	-	231	44,222
Administration services	385,568	-	12,469	398,037
Operation and maintenance of plant services	213,402	-	8,405	221,807
Transportation services	157,933	-	6,068	164,001
	873,338	-	27,620	900,958
Non-instructional programs	-	-	400	400
Other expenditures:				
Facilities acquisition	-	-	3,364	3,364
Long-term debt:				
Principal	-	-	79,353	79,353
Interest and fiscal charges	-	-	30,478	30,478
AEA flowthrough	89,358	-	-	89,358
	89,358	-	113,195	202,553
Total expenditures	2,860,151	20,477	275,807	3,156,435
Excess (deficiency) of revenues over (under) expenditures	(102,195)	(2,786)	(29,173)	(134,154)
Other financing sources (uses):				
Operating transfers in	-	-	10,137	10,137
Operating transfers out	(5,255)	-	(4,882)	(10,137)
Total other financing sources (uses)	(5,255)	-	5,255	-
Net change in fund balances	(107,450)	(2,786)	(23,918)	(134,154)
Fund balances beginning of year	709,852	174,919	113,715	998,486
Fund balances end of year	\$ 602,402	172,133	89,797	864,332

See notes to financial statements.

Moravia Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (page 23) **\$ (134,154)**

***Amounts reported for governmental activities in the
Statement of Activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 48,750	
Depreciation expense	<u>(79,755)</u>	(31,005)

Income surtax received several months after year end is not considered available revenue and is deferred in the governmental funds. (10,857)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues were less than repayments, as follows:

Issued	-	
Repaid	<u>79,353</u>	79,353

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

848

Change in net assets of governmental activities (page 20) **\$ (95,815)**

See notes to financial statements.

Moravia Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2004

Assets

Cash and cash equivalents	\$ 15,210
Inventories	3,592
Capital assets, net of accumulated depreciation	<u>16,138</u>
Total assets	<u>34,940</u>

Liabilities

Accounts payable	94
Interfund payable	<u>5,000</u>
Total liabilities	<u>5,094</u>

Net Assets

Invested in capital assets, net of related debt	16,138
Unrestricted	<u>13,708</u>
Total net assets	<u>\$ 29,846</u>

See notes to financial statements.

Moravia Community School District

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 66,360</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	47,358
Benefits	11,209
Purchased services	1,516
Supplies	68,486
Depreciation	<u>2,557</u>
Total operating expenses	<u>131,126</u>
Operating loss	<u>(64,766)</u>
Non-operating revenues:	
State sources	2,169
Federal sources	69,274
Interest income	<u>34</u>
Total non-operating revenues	<u>71,477</u>
Change in net assets	6,711
Net assets beginning of year	<u>23,135</u>
Net assets end of year	<u><u>\$ 29,846</u></u>

See notes to financial statements.

Moravia Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2004

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 66,455
Cash payments to employees for services	(58,567)
Cash payments to suppliers for goods and services	(63,859)
Net cash used by operating activities	<u>(55,971)</u>
Cash flows from non-capital financing activities:	
State grants received	2,169
Federal grants received	59,209
Net cash provided by non-capital financing activities	<u>61,378</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>-</u>
Cash flows from investing activities:	
Interest income	<u>34</u>
Net increase in cash and cash equivalents	5,441
Cash and cash equivalents at beginning of year	9,769
Cash and cash equivalents at end of year	<u>\$ 15,210</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (64,766)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	10,065
Depreciation	2,557
Decrease in inventories	984
Decrease in accounts receivable	95
(Decrease) in due to other funds	(5,000)
Increase in accounts payable	94
Net cash used by operating activities	<u>\$ (55,971)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$10,065.

See notes to financial statements.

Moravia Community School District

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Moravia Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Moravia, Iowa, and the predominate agricultural territory of Appanoose, Davis and Monroe Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Moravia Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Moravia Community School District has one component unit which meet the Governmental Accounting Standards Board criteria.

Blended Component Unit – The Moravia Education Foundation (Foundation) is included in the financial statements of the Moravia Community School District because its relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The members and Board of Directors of the Foundation consist of the members of the District's Board of Education. In addition, the purpose of the Foundation is to support the activities of the Moravia Community School District.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Appanoose, Davis and Monroe County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by

tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue – Moravia Education Foundation Fund is utilized to provide advancement, enhancement, or support to education in the Moravia Community School District.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenses in the instruction and other expenditures functional areas exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$651,368 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The Foundation invests in checking accounts, savings accounts, money market accounts, and stock. At June 30, 2004, the carrying amount of the stock was \$52,060, and the fair value was \$162,301. The stock is reported at fair value, as determined by the investment company handling the account. The Foundation's investments are all category 1, which means that the investments are held by the Foundation in the Foundation's name. The balance of the Foundation's funds are reported at the carrying amount which reasonably estimates fair value.

(3) Due From and Due to Other Funds

The details of interfund receivables and payables at June 30, 2004 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Physical Plant and	
	Equipment Levy	\$ 27,000
	Student Activity	2,783
	Enterprise:	
	School Nutrition	5,000
		<u>\$ 34,783</u>

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 5,255
	Special Revenue:	
	Physical Plant and	
	Equipment Levy	4,882
Total		<u>\$ 10,137</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 14)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,000	-	-	1,000
Total capital assets not being depreciated	1,000	-	-	1,000
Capital assets being depreciated:				
Buildings	2,523,605	-	-	2,523,605
Improvements other than buildings	26,690	-	-	26,690
Furniture and equipment	311,073	48,750	(18,000)	341,823
Total capital assets being depreciated	2,861,368	48,750	(18,000)	2,892,118
Less accumulated depreciation for:				
Buildings	1,158,403	50,472	-	1,208,875
Improvements other than buildings	12,011	1,334	-	13,345
Furniture and equipment	207,980	27,949	(18,000)	217,929
Total accumulated depreciation	1,378,394	79,755	(18,000)	1,440,149
Total capital assets being depreciated, net	1,482,974	(31,005)	-	1,451,969
Governmental activities capital assets, net	\$ 1,483,974	(31,005)	-	1,452,969
Business type activities:				
Furniture and equipment	\$ 93,911	-	-	93,911
Less accumulated depreciation	75,216	2,557	-	77,773
Business type activities capital assets, net	\$ 18,695	(2,557)	-	16,138

Depreciation expense was charged to the following functions:

Government activities:

Instruction:	
Regular	\$ 2,450
Support services:	
Operation and maintenance of plant	1,561
Transportation	23,938
	27,949
Unallocated	51,806
Total depreciation expense - governmental activities	<u>\$ 79,755</u>

Business type activities:

Food service operations	<u>\$ 2,557</u>
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(6) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 790,000	-	70,000	720,000	75,000
Vehicle loan	9,624	-	4,677	4,947	4,947
Capitalized lease obligations	4,676	-	4,676	-	-
Total	<u>\$ 804,300</u>	<u>-</u>	<u>79,353</u>	<u>724,947</u>	<u>79,947</u>

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness is as follows:

Bond Issue of March 1, 2003				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	2.40%	\$ 75,000	21,835	96,835
2006	2.40%	75,000	20,035	95,035
2007	2.40%	80,000	18,235	98,235
2008	2.75%	85,000	16,315	101,315
2009	3.05%	85,000	13,977	98,977
2010	3.30%	85,000	11,385	96,385
2011	3.45%	90,000	8,580	98,580
2012	3.70%	90,000	5,475	95,475
2013	3.90%	55,000	2,145	57,145
Total		<u>\$ 720,000</u>	<u>117,982</u>	<u>837,982</u>

Vehicle Loan

The District borrowed \$19,006 to finance the purchase of a vehicle. Payments are due annually, with an interest rate of 6.00%. Future payments required are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 4,947	308	5,255
	<u>\$ 4,947</u>	<u>308</u>	<u>5,255</u>

Capitalized Lease Obligations

The District has entered into a capital lease for the purchase of a telephone system. The asset has been capitalized at cost. During the fiscal year, the capitalized lease obligation was paid off.

(7) Operating Lease

The District has entered into an operating lease for various electronic equipment. Payments under these leases totaled \$8,901 during the fiscal year. Future minimum lease payments in relation to these leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2005	\$ 9,201
2006	9,571
2007	8,716
2008	740
Total	<u>\$ 28,228</u>

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$97,867, \$96,174, and \$97,153, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (the Association) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to the Association funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004, were \$251,138.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by the Association to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$89,358 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Budget Overexpenditure

Per the Code of Iowa, expenses may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, expenses in the instruction and other expenditures functional areas exceeded the amounts budgeted.

(12) Deficit Fund Balance

The Physical Plant and Equipment Levy fund had a deficit balance of \$3,635 at June 30, 2004.

(13) Moravia Education Foundation

The Moravia Education Foundation is a 501 (c) 3 organization reported as a Special Revenue Fund in the financial statements. The purpose of the Foundation is to provide advancement, enhancement, or support to education in the Moravia School District. The bylaws state that 90% of the realized income will be used to support grants, and 10% will be reinvested in the fund, along with the original principal amount. At June 30, 2004, the District determined

that \$124,312 of the total amount in this fund must remain in perpetuity to fund the activities of the Foundation. This amount is reported as a reserved fund balance on the balance sheet.

(14) Accounting Change and Restatements

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund			
	Special			
	Revenue			
	Moravia			
	Education			
	Foundation			
	General		Nonmajor Special Revenue	Total
Net assets June 30, 2003, as previously reported	\$ 709,852	174,919	113,715	998,486
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,378,394				1,483,974
Long-term liabilities:				
General obligation bonds			790,000	
Vehicle loan			9,624	
Capitalized lease obligations			4,676	(804,300)
Accrued interest payable				(2,899)
Deferred revenue				101,456
Net assets July 1, 2003, as restated				\$ 1,776,717

Required Supplementary Information

Moravia Community School District

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final to Actual Variance
Revenues:					
Local sources	\$ 1,318,185	66,394	1,384,579	1,510,675	(126,096)
Intermediate sources	37,477	-	37,477	-	37,477
State sources	1,463,061	2,169	1,465,230	1,512,537	(47,307)
Federal sources	203,558	69,274	272,832	355,000	(82,168)
Total revenues	3,022,281	137,837	3,160,118	3,378,212	(218,094)
Expenditures/Expenses:					
Instruction	2,052,524	-	2,052,524	2,032,978	(19,546)
Support services	900,958	-	900,958	1,268,584	367,626
Non-instructional programs	400	131,126	131,526	175,571	44,045
Other expenditures	202,553	-	202,553	199,278	(3,275)
Total expenditures/expenses	3,156,435	131,126	3,287,561	3,676,411	388,850
Excess (deficiency) of revenues over (under) expenditures/expenses	(134,154)	6,711	(127,443)	(298,199)	170,756
Other financing sources, net	-	-	-	(10,000)	10,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(134,154)	6,711	(127,443)	(308,199)	180,756
Balances beginning of year	998,486	23,135	1,021,621	808,199	213,422
Balances end of year	\$ 864,332	29,846	894,178	500,000	394,178

See accompanying independent auditor's report.

Moravia Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not enter into a budget amendment.

During the year ended June 30, 2004, expenses in the instruction and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

Moravia Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Assets					
Cash and pooled investments	\$ 32,448	45,687	22,967	16,325	117,427
Receivables:					
Property tax:					
Delinquent	579	-	398	1,446	2,423
Succeeding year	58,071	-	19,376	88,881	166,328
Accrued interest	-	18	-	-	18
Total assets	\$ 91,098	45,705	42,741	106,652	286,196
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	288	-	-	288
Interfund payable	-	2,783	27,000	-	29,783
Deferred revenue:					
Succeeding year property tax	58,071	-	19,376	88,881	166,328
Total liabilities	58,071	3,071	46,376	88,881	196,399
Fund equity:					
Reserved for debt service	-	-	-	17,771	17,771
Unreserved	33,027	42,634	(3,635)	-	72,026
Total fund equity	33,027	42,634	(3,635)	17,771	89,797
Total liabilities and fund equity	\$ 91,098	45,705	42,741	106,652	286,196

See accompanying independent auditor's report.

Moravia Community School District

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2004

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 29,688	-	20,418	74,197	124,303
Other	-	120,638	696	997	122,331
Total revenues	29,688	120,638	21,114	75,194	246,634
Expenditures:					
Current:					
Instruction:					
Regular instruction	6,989	-	-	-	6,989
Special instruction	1,508	-	-	-	1,508
Other instruction	1,940	124,155	-	-	126,095
Support services:					
Student services	447	-	-	-	447
Instructional staff services	231	-	-	-	231
Administration services	12,469	-	-	-	12,469
Operation and maintenance of plant services	8,107	-	298	-	8,405
Transportation services	6,068	-	-	-	6,068
Non-instructional programs:					
Food service operations	400	-	-	-	400
Other expenditures:					
Facilities acquisition	-	-	3,364	-	3,364
Long-term debt:					
Principal	-	-	-	79,353	79,353
Interest and fiscal charges	-	-	-	30,478	30,478
Total expenditures	38,159	124,155	3,662	109,831	275,807
Excess (deficiency) of revenues over (under) expenditures	(8,471)	(3,517)	17,452	(34,637)	(29,173)
Other financing sources (uses):					
Operating transfers in	-	-	-	10,137	10,137
Operating transfers out	-	-	(4,882)	-	(4,882)
Total other financing sources (uses)	-	-	(4,882)	10,137	5,255
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(8,471)	(3,517)	12,570	(24,500)	(23,918)
Fund balances beginning of year	41,498	46,151	(16,205)	42,271	113,715
Fund balances end of year	\$ 33,027	42,634	(3,635)	17,771	89,797

See accompanying independent auditor's report.

Moravia Community School District

Schedule 3

Schedule of Changes
in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Class Accounts	\$ 18,755	16,175	16,655	18,275
Athletic Accounts	636	44,139	42,133	2,642
Interest Received	250	250	83	417
Elementary	3,987	12,211	11,058	5,140
Other Accounts	<u>22,523</u>	<u>47,863</u>	<u>54,226</u>	<u>16,160</u>
Total	<u>\$ 46,151</u>	<u>120,638</u>	<u>124,155</u>	<u>42,634</u>

See accompanying independent auditor's report.

Moravia Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Local sources:		
Local tax	\$ 914,345	869,461
Tuition	242,808	298,956
Other	161,032	254,227
Intermediate sources	37,477	-
State sources	1,463,061	1,475,475
Federal sources	203,558	254,823
Total	<u>\$ 3,022,281</u>	<u>3,152,942</u>
Expenditures:		
Instruction:		
Regular instruction	\$ 1,322,066	1,308,063
Special instruction	299,730	391,663
Other instruction	430,728	323,152
Support services:		
Student services	72,891	71,131
Instructional staff services	44,222	56,295
Administration services	398,037	380,173
Operation and maintenance of plant services	221,807	236,992
Transportation services	164,001	146,263
Non-instructional programs	400	265
Other expenditures:		
Facilities acquisition	3,364	103,912
Long-term debt:		
Principal	74,883	836,648
Interest and other charges	34,948	56,251
AEA flowthrough	89,358	95,056
Total	<u>\$ 3,156,435</u>	<u>4,005,864</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
103 BENTON AVENUE EAST
ALBIA, IOWA 52531

(641) 932-3295

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
Moravia Community School District:

We have audited the financial statements of the Moravia Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Moravia Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for items II-B-04, II-H-04, II-K-04, II-L-04, and II-M-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Moravia Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04 is a material weakness. Prior year reportable conditions have been partially resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Moravia Community School District and other parties to whom Moravia Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Moravia Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

August 27, 2004

MORAVIA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion - Response acknowledged.

MORAVIA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Expenditures for the year ended June 30, 2004, exceeded the amounts budgeted in the instruction and other expenditure functional areas.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – We will amend our budget before expenditures exceed the budget.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Miller, Teacher Part-owner of Carter-Miller Services	Services	\$4,220

In accordance with an Attorney General's opinion dated November 9, 1976, this transaction does not appear to represent a conflict of interest, since the teacher has no authority to contract for the services on behalf of the District.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

MORAVIA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

- II-H-04 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 8 of the Certified Enrollment Certification Form for September 2003 was overstated by 1 student.
- Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response – We will contact the Iowa Department of Education and the Department of Management.
- Conclusion – Response accepted.
- II-I-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-04 Payroll Issues – The taxable wages as recorded on the State of Iowa Job Service reports were understated. Some I-9's were incomplete. The second quarter 941 forms were inaccurate.
- Teachers are paid based on years of experience and educational hours completed. The District could not consistently provide support for educational hours completed for the teachers. As a result, the District is unable to determine if it was compensating the correct amount to its teachers.
- Some non-exempt employees are not required to keep timesheets, and an instance was noted where the leave hours were not recorded on the computer.
- Recommendation – The District should ensure the Job Service reports, 941 forms and I-9 forms are correctly completed. In addition, the District should implement procedures to ensure all employees are paid the correct amount based on their experience and educational hours completed. Also, timesheets should be required for all non-exempt employees, and that all leave hours need to be recorded on the computer.
- Response – We will implement the above recommendations.
- Conclusion – Response accepted.
- II-L-04 Disbursements – The District did not consistently cancel paid invoices. Also, there was not always documented receipt of merchandise or service prior to the payment of the invoices. Sales tax was paid on a purchase. Some instances were noted where purchase orders were not signed, or invoices were not obtained prior to payment of the bill.

MORAVIA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year ended June 30, 2004

Recommendation – The District should cancel all paid invoices and implement procedures to ensure receipt of merchandise and services is documented prior to the payment of the invoices. Also, sales taxes should not be paid on school purchases. Procedures should also be implemented to ensure purchase orders are signed and invoices are obtained prior to the payment of the bill.

Response – We will review the above, and take appropriate action as necessary.

Conclusion – Response accepted.

II-M-04 Financial Condition – The Physical Plant and Equipment Levy Fund had an unreserved, undesignated deficit fund balance of \$3,635 at June 30, 2004.

Recommendation – The District should continue to monitor the Physical Plant and Equipment Levy Fund and investigate alternatives to eliminate the deficit.

Response – We will continue to monitor the Physical Plant and Equipment Levy Fund.

Conclusion – Response accepted.

II-N-04 Receipts – Admission tickets were not issued for athletic events.

Recommendation – The District should issue pre-numbered admission tickets for athletic events. The District should then reconcile the dollar value of pre-numbered admission tickets issued to the dollar amount of cash deposited to the bank account.

Response – We will implement this recommendation.

Conclusion – Response accepted.